



State of Wisconsin
**Employee Reimbursement Accounts
Program
FACT SHEET 2003**

The Employee Reimbursement Accounts Program (ERA) is an optional benefit that allows participants to earmark part of their pre-tax salary to pay for certain Internal Revenue Service (IRS)-approved expenses. Expenses that are eligible for this favorable tax treatment include:

- The employee's share of State group life, group health, and EPIC excess medical insurance premiums
- Dependent care expenses that allow the employee and spouse to work
- Most out-of-pocket medical expenses not reimbursable by any insurance coverage (e.g., co-pays, deductibles, glasses, prescription drugs, etc.)

By earmarking part of their pre-tax salary to pay these kinds of expenses, participants effectively reduce their taxable gross income. This in turn significantly reduces their State and federal tax liability and increases their take home salary.

The ERA program, authorized by Section 125 of the Internal Revenue Code (IRC), was created by 1987 Wisconsin Act 399 and offered to employees starting in January 1990. The Department of Employee Trust Funds (DETF) and the Employee Trust Funds Board (Board) have statutory authority for program administration and oversight. The Board contracts for administrative services (marketing, recordkeeping, payment processing, daily administration) through a competitive bid process. Fringe Benefits Management Company is under contract through 2005.

PROGRAM ADMINISTRATION

The ERA program is divided into two parts for administration.

- Automatic Conversion of Insurance Premiums

Premium conversion under ERA is self-administered by the DETF, working with the State's various payroll processors. This program automatically takes an eligible employee's share of State group life, group health and EPIC excess medical insurance premiums from pre-tax salary at the time paychecks are written. If any employee prefers to pay taxes on insurance premiums, the employee may file a waiver to prevent this automatic conversion of their premiums from a post-tax to the pre-tax basis.

- Expense Reimbursement Accounts

Both dependent day care and unreimbursed medical expenses are reimbursed through individual accounts, established by participants during an open enrollment period for the ERA program held each October. This portion of the program is administered by the third party contractor. The contractor provides enrollment, accounts posting, and claims services.

ELIGIBILITY

- Eligible Employees

State employees, including University of Wisconsin employees, are eligible to participate in the ERA program, regardless of whether their appointments are classified, unclassified, represented, or full- or part-time.

- Ineligible Employees

- Fellows, scholars, and research assistants in the University of Wisconsin system
- Limited term and temporary employees
- Student hourlies

2002 PARTICIPATION AND PROGRAM SAVINGS

In 2002, the ERA program directly benefited over 70,000 State employees, most of them through savings on their State group life, health, and EPIC insurance premiums. Combined estimated employee tax savings due to ERA was over \$13 million.* The State achieved a FICA savings of over \$3.4 million, which is tapped indirectly to pay program administrative costs.

Account	Number of Participants	Amount Contributed	Minimum Employee* Savings	Employer FICA Savings
Premium Conversion (Life, Health and/or EPIC Insurance)	70,000	\$28,540,000	\$8,176,710	\$2,183,310
Medical Expense Accounts	9,094	9,454,330	2,708,666	723,256
Dependent Care Accounts	2,097	7,417,430	2,125,094	567,433
TOTAL	--	\$45,502,760	\$13,010,470	\$3,473,999

* Employee tax savings estimates are based on a 15% Federal tax rate, 6% State tax rate, and 7.65% FICA rate.

PROGRAM COSTS

Administrative costs for the ERA program in the 2002 plan year totaled \$742,814. Of this amount, direct State costs were \$84,880 and contractor administrative costs were \$657,934. Administrative expenses are funded from three sources: interest income on the withheld amounts; forfeitures from the dependent day care and medical expense accounts that are not fully depleted during the previous tax year; and a direct monthly charge to State agencies. In 2002, participant forfeitures totaled \$187,008 (\$44,685 for dependent day care; \$142,323 for medical expenses) and interest income on withheld payroll deductions came to \$67,086. The direct monthly charge paid by State agencies was temporarily suspended to reduce the reserve balance that was in excess of the targeted balance.